

**SURREY COUNTY COUNCIL****CABINET MEMBER FOR EDUCATION****DATE: 4 JULY 2017****LEAD OFFICER: JULIE FISHER, STRATEGIC DIRECTOR OF CHILDREN, SCHOOLS & FAMILIES****SUBJECT: APPROVAL OF SCHOOL DEFICITS****SUMMARY OF ISSUE:**

This report provides summary details of total Surrey maintained schools' balances and seeks Cabinet Member approval for licensed deficits where schools are projecting deficits in excess of 5% of their budget share. Two schools require this approval in 2017/18.

**RECOMMENDATIONS:**

It is recommended that the Cabinet Member for Education:

1. notes the level of balances held by Surrey maintained schools; and
2. approves the one-year licensed deficits for Hale Primary and Chart Wood schools.

**REASON FOR RECOMMENDATIONS:**

Approval of a licensed deficit will ensure schools are operating within the County's Scheme for Financing Schools and will set the parameters within which a recovery plan can be developed.

**DETAILS:****SCHOOLS' BALANCES**

- 1 Total net balances held by Surrey's 271 maintained schools as at 31 March 2017 were £41.9m. A further £2.8m is held by confederations and networks of schools. For comparative purposes, the table below excludes from current and all prior year figures, the balances held by schools which had converted to academy status by 31 March 2017. Responsibility for the finances of academies transfers to the Education & Skills Funding Agency on conversion. The council is not currently informed of academies' financial balances.

	As at 31 March 2015	As at 31 March 2016	As at 31 March 2017	No. of schools
<i>School Phase:</i>	£m	£m	£m	

Primary (including nurseries)	26.3	29.9	29.8	230
Secondary	5.4	7.2	7.6	14
Special	3.8	4.2	3.9	19
Pupil referral units	0.5	0.5	0.6	8
<b>Total individual schools' balances</b>	<b>36.0</b>	<b>41.8</b>	<b>41.9</b>	<b>271</b>
Balances held by schools confederations / networks	3.2	2.7	2.8	
<b>Total Schools' Balances</b>	<b>39.2</b>	<b>44.5</b>	<b>44.7</b>	

## LOCAL AUTHORITIES' FINANCIAL MONITORING OF SCHOOLS DFE REQUIREMENTS

- 2 The Department for Education (DfE) requires each local authority's Chief Finance Officer (CFO) to produce an Outturn statement indicating the extent of any under or overspending of Dedicated Schools Grant (DSG) by the authority. In addition, the local authority (LA) must demonstrate deficits and large surpluses in schools are short-term and actively managed.
- 3 The DfE seeks explanations of actions to be taken by LAs if specific thresholds are breached. The thresholds are as follows:
  - An overspend on DSG should not exceed 2% and an underspend should not exceed 5%.  
Surrey had a net DSG overspend of 0.15%.
  - No LA should have 5% of schools with a surplus of 15% or more for the last 5 years  
In Surrey this 5% threshold would equate to 14 schools. Surrey has 12 schools in this position.
  - No LA should have 2.5% of its schools with a deficit of 2.5% or higher, for the last 4 years.  
Surrey has no schools in this position.

## SURPLUS BALANCES

- 4 Of Surrey's 271 maintained schools, 266 (98%) had surplus balances at 31 March 2017. Year-end surplus balances are typically expressed as a percentage of each school's total revenue budget share for the year.
- 5 School surpluses can be analysed across phases as follows:

As at March 2017:	<b>Primary Schools</b> (including nursery schls)		<b>Secondary Schools</b>		<b>Special Schools</b>		<b>PRUs</b>	
Surpluses	No. Schls	% in phase	No. Schls	% in phase	No. Schls	% in phase	No. Schls	% in phase
0 – 5%	27	12%	2	14%	3	5%	1	12.5%
5 - 8%	39	17%	3	21.5%	1	11%	2	25%

8 – 10%	25	11%	3	21.5%	3	11%	2	25%
10-15%	76	33%	3	21.5%	4	26%	1	12.5%
15% +	61	26%	3	21.5%	5	32%	2	25%
Total	228	99%	14	100%	16	85%	8	100%

- 6 Although a marginal surplus can represent prudent financial management, sizeable balances are generally discouraged as funding is allocated to schools on the basis of the specific needs of current pupils and is intended to be spent on those pupils. LAs must demonstrate that high balances are challenged.
- 7 The local authority asks schools with high balances (over 15% of budget) to provide details of the purpose for which they are held. Responses received to date indicate that approximately 33% of high balances were held for capital projects and 9% for non-capital projects. Approximately 25% of high balances were held to ensure stability in current or future budgets amid funding concerns. The lack of any provision for inflation in the funding settlement in recent years and the potential impact of the National Funding Formula have led to uncertainty in schools and governors are notably seeking to make provision for potential future risks. The remaining balances were maintained for a variety of purposes including community focused projects.

## DEFICITS

- 8 The total value of schools' deficits at March 2017 is £523,278, an increase from £97,943 in March 2016. Approximately half of this increase relates to one school – Chart Wood (see para 12). The following table shows the number of schools with deficits of varying magnitude in the past three years – adjusted to exclude academy converters. A school's deficit is expressed as a percentage of its total delegated revenue budget received that year.

	As at 31 March 2015	As at 31 March 2016	As at 31 March 2017
Deficits	No. of schools	No. of schools	No. of schools
0 – 5%	2	4	2
5 – 10%	1	0	2
10% +	1	0	1
Total	4	4	5

- 9 Of Surrey's 271 maintained schools, five had deficit balances as at 31 March 2017. Smaller deficits are frequently temporary, but larger deficits require a robust recovery plan that repays the deficit whilst minimising the impact on the education of pupils at the school. Deficits exceeding 5% at 31 March 2017 were held by three schools: Chart Wood (11.1%), Hale Primary (8.1%) and Gosden House (5.1%).

## National comparisons

- 10 The latest national comparisons are currently only available for the year ending 31 March 2016. At 31 March 2016, four Surrey maintained schools had deficits (1.4% of schools) compared to 5.7% nationally.

- 11 The DfE discourages surplus balances in excess of 15% of funding. At 31 March 2016, a total of 19.2% of (then) Surrey maintained schools were in that position compared to 13.2% of schools nationally, which placed Surrey 43<sup>rd</sup> nationally among 152 LAs.

## **SCHOOLS SEEKING APPROVAL FOR DEFICITS IN EXCESS OF 5%**

- 12 Cabinet Member approval is required for a licensed deficit in excess of 5% of a school's budget.

No schools projected a deficit in excess of 5% at 31 March 2017. However three schools ended the year with deficits over 5%: Hale Primary, Chart Wood and Gosden House. Two of these will require Cabinet Member deficit approvals in 2017/18. Details are set out below.

### **Hale Primary School**

	% of annual budget	£
Deficit as at 31 March 2017	7.9%	115,213
Proposed deficit as at 31 March 2018	9.3%	135,000

Hale School has suffered from low pupil numbers and poor attainment levels in recent years. The school has strengthened the leadership team and has made considerable progress in raising standards. The school has also undertaken considerable outreach work in the community which has contributed to the rapid improvement of the school. The new evaluative and innovative approaches have transferred to other leaders in the school and improvements in pupil attainment are expected to be sustainable.

The school's March 2017 year end deficit of £115,213 was significantly in excess of the approved deficit of £63,500, highlighting concerns regarding financial monitoring at the school. The school's leadership have requested a licensed deficit of £135,000 in 2017/18 after which the school intends to repay its deficit. Full supporting details are still awaited and following the departure of the school's bursar, assistance is required in validating budget assumptions and developing a robust recovery plan. The council is providing financial advice and advanced skills governor support to the school for this purpose.

Cabinet Member approval is sought for a one-year licensed deficit pending further information from the school and the development of a robust recovery plan.

### Chart Wood

	% of annual budget *	£
Deficit as at 31 March 2017	11.1%	232,109
Maximum proposed deficit as at 31 March 2018	7.5%	232,109
* Note: The budget increases in 2017/18 for the full year impact of the merger. The combined school operated for part of the year only in 2016/17.		

Chart Wood school was formed by the merger of two special schools - in practical terms from September 2016 and legally from September 2017. It is anticipated that the merger and future planned relocation onto a single site will allow scope for savings in staffing and other costs, but these will take time to realise, although some small savings in staffing have already been made. Reduced pupil numbers and lower boarding numbers are currently contributing to the large shortfall. The school is likely to remain on two sites for at least another year and discussions regarding additional transitional funding are currently underway.

In the interim it is suggested that a one year license be approved for the existing deficit to continue in 2017/18. Once funding is finalised, the level of any deficit – which is expected to be considerably lower - will be assessed and a robust recovery plan developed.

### Gosden House

	% of annual budget	£
Deficit as at 31 March 2017	6.1%	103,204
Proposed deficit as at 31 March 2018	2.6%	44,700

Historically, Gosden House was funded at a relatively high rate for residential provision. The reduction and ultimately closure of residential provision at the school in August 2013 made the staffing structure unsustainable. The school has restructured to realise some savings but funding has been impacted by low pupil numbers. The school is currently in negotiations with the local authority regarding the type of special needs to be catered for in future years.

The school has revised its original budget plan for 2017/18 making changes including reducing its expenditure on agency support staff and is now projecting a deficit of £44,700 (2.6%) in 2017/18. This will be fully recovered in 2018/19.

### **RISK MANAGEMENT AND IMPLICATIONS:**

- 13 Risks include the maintenance by schools of inappropriately high surpluses which leave current pupils' needs unmet. Schools with large deficits can struggle to repay them without impacting on standards. Where a weak school is obliged to academise – under sponsored academy status - the local authority can be expected to fund any deficit on conversion. This becomes a pressure on council funds required for other services.
- 14 As part of the monitoring of a schools' performance, the current level of balances is considered and recommendations are made regarding their potential use. Schools with deficits are required to develop a recovery plan to repay the deficit with a defined period and are subject to enhanced monitoring until fully repaid.

### **Financial and Value for Money Implications**

- 15 All maintained schools are expected to repay any deficits and must submit recovery plans to the local authority. These vary from one to three years depending on the size of the deficit and the potential impact of repayments on the school's performance.
- 16 Relatively few Surrey schools have deficits as schools at risk are closely monitored and advice is provided where needed.

### **Section 151 Officer Commentary**

- 17 The Section 151 officer confirms the process of monitoring surpluses and deficits is robust and outcomes are well within DfE requirements.
- 18 Those schools with deficits in excess of 5% are a concern and officers from the local authority and Babcock Four S have been involved in providing advisory support. Notably, Gosden House will fully recover its deficit during 2018/19.
- 19 DfE policies currently assume that schools with deficits on conversion to academy status will carry those deficits to the new academy except where schools are obliged to convert under 'sponsored academy' status due to weak performance. Additional financial and governor support is currently being provided to Hale school to minimise their deficit as the current low OFSTED rating could create a financial risk to the council should the school be required to convert. To date all schools with deficits converting to academy status in Surrey have taken their deficits with them.
- 20 The local authority works with schools with particularly high surpluses to assess an appropriate level of balances which maintains a prudent approach to future risks but ensure the needs of current pupils are addressed.

### **Legal Implications – Monitoring Officer**

- 21 The legal framework is set out in the Schools & Early Years Finance (England) Regulations 2017, the Surrey Scheme for Financing Schools September 2015 and the Scheme for Financing Schools Statutory Guidance issued by the Department for Education 2015. There are no significant legal implications arising from this report.

## **Equalities and Diversity**

- 22 Budget recovery plans may impact on particular groups. However, in determining a recovery plan, advice is sought from curriculum, HR and finance consultants and appropriate safeguards are built into the plan. In the past this has necessitated seeking DfE approval for a recovery plan to exceed three years, to protect the interests of vulnerable pupils.

## **Other Implications:**

- 23 The potential implications for the following council priorities and policy areas have been considered. Where the impact is potentially significant a summary of the issues is set out in detail below.

Area assessed:	Direct Implications:
Corporate Parenting/Looked After Children	No significant implications arising from this report
Safeguarding responsibilities for vulnerable children and adults	No significant implications arising from this report
Public Health	No significant implications arising from this report
Climate change	No significant implications arising from this report
Carbon emissions	No significant implications arising from this report

## **WHAT HAPPENS NEXT:**

- 24 Council officers and Babcock 4S will continue to provide support to the schools listed and robust recovery plans will be agreed.
- 25 Schools deficits and surpluses will continue to be managed to ensure that DfE guidelines are not breached.

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### **Contact Officer:**

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### **Consulted:**

Mary Lewis, Cabinet Member for Education  
Sheila Little, Director of Finance,  
Liz Mills, Assistant Director

### **Sources/background papers:**

- Schools & Early Years Finance (England) Regulations 2017
- Surrey Scheme for Financing Schools September 2015
- Scheme for Financing Schools: Revised Statutory Guidance (DfE Dec 2015)

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